THE JOURNAL

OF

POLITICAL ECONOMY

APRIL—1907

THE TENDENCY OF MODERN COMBINATION. I

The rapid expansion of trade and industry during the years immediately succeeding the Civil War was accompanied by an excessive competition which led to the elimination of large numbers of producers within various lines of activity. In consequence, sporadic attempts were made to relieve the pressure of this competition by means of pooling agreements. As early as 1872, for example, certain distillers north of the Ohio (many of whom had gone into business to reap the speculative profits of changes in the excise) combined in an unsuccessful effort to restrict their output.[1] The same year, moreover, witnessed a combination among six coal roads which by this time had secured a sufficient interest in the anthracite fields to be able to enter into an agreement to regulate production and fix transportation rates.[2]

Shortly after the close of the war the sugar-refining industry also began to suffer from an aggravated case of competition. During the period from 1875 to 1880 the number of refineries

[1] Later, in 1882, the Western Exporters' Association was formed to limit production and export surplus stock. This agreement was succeeded by others, and from that time until 1887 pools including from seventy to eighty distilleries were maintained for brief periods. Cf. *The Report of the Industrial Commissioner,* 1900, Vol. I, pp. 76, 168.

[2] This agreement lasted until 1876, and then after an interval of two years another short-lived combination was formed. In 1885, succeeding a brief period of competition, co-operation was once more inaugurated, only to be checked (ostensibly at least) by the anti-pooling regulations of 1887. Cf. Peter Roberts, *The Anthracite Coal Industry,* chap. iv, pp. 66, 69, 70.

was reduced from forty-two to twenty-seven establishments,[3] and in 1882 the surviving concerns were forced into the temporary protection of a pool. At the beginning of the seventies very similar conditions of indiscriminate competition prevailed within the petroleum-refining industry and gave impetus to the movement which early made for the union of the large interests composing what came to be known as the Standard Alliance.[4]

During the ten years from 1870 to 1880 the railroad systems of the country increased rapidly in size and power, and numerous significant changes took place. Gould abandoned Erie[5] and betook himself to the West, where he began to acquire important holdings in such roads as the Union Pacific, the Missouri Pacific, the Missouri, Kansas & Texas, the Wabash, St. Louis & Pacific, and the Denver & Rio Grande.[6] The Vanderbilt lines shared largely in the general expansion and were said to have been operated in close connection with the Gould properties.[7] The Pennsylvania, the Baltimore & Ohio, and other big systems had also undergone an unusual growth, mainly by the absorption of smaller independent roads. But this process of growth was not proving to be an easy matter; instead it was being forced by a self-destructive competition which was making independent existence impossible. Moreover, the active rivalry of the railroads was hastening the competitive elimination of the

[3] C. M. Depew, ed., *One Hundred Years of American Commerce,* Vol. I, chap. xxxvii, by John E. Searles, secretary and treasurer of the American Sugar Refining Co.

[4] The working arrangements of the "alliance" were close and effective because of the fact that the stock-ownership of the various companies composing it was distributed in such a way as to make the advantage of one member of the organization more or less the advantage of all. In other words, the device of a "community of interests" was employed, with such good results, moreover, that by 1879 the association included from 90 to 95 per cent. of the refining interests of the country, besides having control of all the principle pipe lines for the transportation of oil. Cf. Ida M. Tarbell, *The History of the Standard Oil Company.*

[5] For an account of Gould's connection with Erie cf. Charles F. Adams, *Chapters in Erie and Other Essays.*

[6] *Commercial and Financial Chronicle,* March 27, 1880, Vol. XXX, p. 308; also consult directors' lists of *Poor's Manual,* 1870 to 1880.

[7] *Commercial and Financial Chronicle,* March 27, 1880, Vol. XXX, p. 309.

smaller producers within various occupations resulting as it did in excessive fluctuations in freight rates and open bidding for the favor of large shippers. It would appear, then, that the movement toward industrial combination received a double impetus at this time, being aided by the machinations of the railroads as well as by the competitive conditions existing within the several industries.

At the close of the seventies the most effective and powerful of all the industrial organizations that had come into being was the Standard Oil Alliance, and when the trust succeeded the looser, extra-legal combination in 1882, it had an estimated capital of $70,000,000, of which the pipe-line interests were said to have constituted about one-third. The later organization speedily suggested an escape from the unsatisfactory pooling agreements then in vogue, and it was accordingly soon succeeded by a number of similar combinations, such as the American Cotton Oil Trust,[8] the Linseed Oil Trust, the Distilling and Cattle Feeding Trust, and the National Lead Trust. In view of these well-known instances that have just been cited, it would seem that the trust movement was in a fair way to expand

[8] The American Cotton Oil Trust was formed in 1884; the next year the Linseed Oil Trust was organized, acquiring the property of some fifty or more concerns, while in 1887 the Distilling and Cattle Feeding Trust, with a capital of $30,000,000, superseded the loose and informal agreements which had existed among the distillers prior to that period. The National Lead Trust, 1887, also grew out of various unsuccessful attempts to lessen competition by informal association, and about this same time nineteen sugar refineries were united into the Sugar Refineries Trust, having a capital of $50,000,000.

It was generally believed at that time that the Cotton Oil Trust had Standard Oil men among its backers, although no substantial evidence was adduced to support such a belief. Cf., for instance, J. S. Jeans, *Trusts, Pools, and Corners,* chap. viii, p. 101. It is reasonably certain that Standard Oil men were interested in the National Lead Trust. Indeed, W. P. Thompson, at one time secretary of the Standard Oil Co., of Ohio, became president of the Lead Trust about two years after its formation, at the solicitation, as he himself says, of Charles Pratt and H. H. Rogers. "In 1889 my friends H. H. Rogers and the late Charles Pratt, both of whom had had large experience in the lead and paint business, knowing that I was about to retire from my association with the Standard Oil Co., called my attention to the fact that the National Lead Trust was desirous of my becoming interested with them." Cf. Depew, ed., *One Hundred Years of American Commerce,* Vol. II, chap. lxiv, p. 440, "The Lead Industry," by William P. Thompson.

indefinitely, and there was good reason to suppose that the "industrials" might one day come to compete with the railroads for the favor of the investing and speculating public. Until 1887 or 1888, however, although the movement toward combination was progressing rapidly, attention was mainly directed toward a unification of control within the limits of certain well-defined productive areas. Changes had been brought about because of the existing competitive situation. They were the outcome of a need for defensive measures felt no less by the financially strong, whose aggressive policy hastened the corporate movement, than by their weaker rivals, whose condition forced the maintenance of a passive attitude. The result of these defensive unions (an incidental result as far as the individuals immediately interested were concerned) was an increase in industrial efficiency and a diminution of social waste. There was as yet no thought of combination for investment purposes as such that would transcend the limits of certain well-defined lines of activity.

In support of this statement may be cited the case of the Standard Oil Trust, the most advanced type of industrial organization in existence at the close of the eighties. In 1888 it was earning dividends of from $16,000,000 to $20,000,000 on a capitalization of $90,000,000; and in view of these large returns it might have been expected that the investments of the men in control of the Standard Oil properties would be found to be of considerable extent. But, in point of fact, their outside interests do not seem to have been of any great importance prior to 1887 or 1888. Clearly there were no evidences of that unanimity of action in the placing of investments which has later operated to make the so-called Standard Oil group a power in the industrial and financial world at large. Then they were pre-eminent in only one field of activity—that of petroleum-refining. The explanation of this fact is not far to seek. In the earlier days large dividend payments could be very profitably reinvested in the business from which they were derived—in improvements in processes, in additions to holdings, and in the development of allied and subsidiary industries. The pipe-line system, for example, which had been so effectively extended, had required

large expenditures for the purchase of competing lines and the building of new ones. The utilization of by-products, too, had been largely undertaken since 1875, while natural gas, being found in the neighborhood of the oil fields and requiring similar methods of piping and drilling, offered another obvious avenue of investment. But, although with this growth in size and comprehensiveness, and with increased economies of production, dividends were becoming progressively larger, the opportunities for their reinvestment were none the less rapidly diminishing. A time must come when profits would grow to be sufficiently unwieldy to present a serious problem in investment, and that time seems to have been reached toward the close of the eighties.

All this does not mean that there had been no outside investments whatever prior to the period in question. Individual members of the Standard Oil Trust had without doubt been connected with other lines of activity, notably with the railroads of the country.[9] But none of these early investments are of particular importance as evidencing an extension of the group interests. They seem to have been purely personal matters, and as such they are significant only as indications of the probable direction to be taken by later and more important investments. As has been said, the period of general group expansion does not begin until 1887 or 1888. In the former year John D. Rockefeller became a member of the syndicate that bought out the Minnesota

[9] For example, Henry M. Flagler appeared on the directorate of the Valley Railroad Co., in 1879. In 1882 William Rockefeller became director of the Chicago, Milwaukee & St. Paul. Benjamin Brewster, a holder of Standard Oil certificates, was perhaps more especially a railroad man prior to 1881, when he became vice-president of the National Transit Co. (the Standard Oil pipe-line organization). He had been interested in the construction of the Chicago, Rock Island & Pacific, becoming a director of the company in 1879 and continuing his connection with it until his death in 1897. Jabez A. Bostwick (one-time president of the American Transfer Co. and later trustee and treasurer of the Standard Oil Trust) also had large individual interests in railroads. In 1886 he became president of the New York & New England, and about the same time acquired stock-holdings in other New England roads.

Concerning Brewster, cf. *Railway and Engineering Review,* September 11, 1897, Vol. XXXVII, p. 530; concerning Bostwick, cf. *Railroad Gazette,* December 17, 1886; concerning Flagler's appearance on the directorate Valley Railroad, cf. *Poor's Manual,* 1879; concerning William Rockefeller, director of the Chicago, Milwaukee & St. Paul, cf. *Poor's Manual,* 1882.

Iron Co.[10] Following the change of management, Benjamin Brewster and Henry M. Flagler were elected directors of the company as well as of its railroad, the Duluth & Iron Range,[11] leaving no doubt that the "Standard" (to use the term in a newer, more detached sense) was interested. About 1887, or somewhat later, Rockefeller's interests appeared in the Northern Pacific and in the Missouri, Kansas & Texas,[12] while in 1888 William P. Thompson, C. W. Harkins, Charles Pratt, and Oliver H. Payne—all Standard Oil men in high standing—entered simultaneously the directorate of the Ohio River Railroad Co. Evidences of an organized expansion of investment interests are therefore not lacking to afford justification for dating the beginning of a second period of development from this time. During the new era Standard Oil holdings ceased to be regarded as trust stocks simply; they also included the outside investment interests of members of the group. In short, the emphasis began to shift from the industrial organization—the trust proper—toward the larger, more exclusively financial unit. The earlier combination had come about, in part at least, as the result of industrial exegencies. At any rate, it certainly made for increased facilities of production within the limits of the industry in question. But the later movement (so far as it was not concerned with allied industries) could not have legitimately redounded to the commercial advantage of the trust itself—certainly it could have had no effect upon methods, processes, and economies of production.[13]

[10] *Commercial and Financial Chronicle,* May 21, 1887, Vol. XLIV, p. 653.

[11] Cf. *Poor's Manual of Railroads,* 1888.

[12] *Commercial and Financial Chronicle,* June 7, 1890, Vol. L, p. 801, says: "Parties familiar with the affairs of the company [i. e., the M. K. & T.] remark that the presence on the board of Mr. Freeman, treasurer of the Standard Oil Co., and Mr. Colgate Hoyt, the Standard Oil representative in Northern Pacific, is a feature of the reorganization as accomplished. It emphasizes the fact that the Standard Oil people whom Mr. Enos has represented for over two years in his relations with the property continue to have a large and active interest in the road."

[13] Cf. T. B. Veblen, *The Theory of Business Enterprise,* especially pp. 35–37, p. 37: "The end of his [the business man's] endeavors is not simply to effect an industrially advantageous consolidation, but to effect it under such circumstances of ownership as will give him control of large business forces or

Notwithstanding the nature of the expansion that was taking place, the trust was nevertheless still recognized as the nucleus from which the larger alliance took its growth. Men interested directly in the Standard Oil Trust formed the Standard Oil group; and it was not until some years later, when this connection had become exceedingly attenuated, that the trust sank into a position of relative insignificance. Meanwhile the group-control was being constantly extended, with a facility assuredly deserving of comment. It is true that the methods whereby large industrial concerns compel or otherwise induce their weaker competitors to join with them or else be forced out of business have become fairly familiar from constant iteration. But less space has been given to discussion of the means by which a group of investors (dating their union from some enterprise undertaken in common) may further extend their control by proceeding against the property of unorganized alien interests. The more powerful the group and the greater its resources, the more numerous, of course, are its opportunities to enlarge the scope of its activities. It may gain a foothold in legitimate commercial fashion by extending aid, perhaps, to the financially embarrassed upon terms favorable to itself. Or it may increase its holdings by direct purchase, by gradual acquisition, or by other means.

A narration of the incidents leading up to the acquirement of control of certain Minnesota iron-ore properties by the "Standard" affords an excellent illustration of the methods whereby this earlier extension of investment interests was effected. The owners of the Mountain Iron and Biwabik mines—two rich properties of the Missabe range—had been engaged in building a railroad, the Duluth, Mesaba & Northern, from the mines to the lake.[14] Early in 1892 they became involved in financial difficulties, and at this juncture they were approached by an agent of Mr. Rockefeller, who offered them a loan of $1,600,000, in return for which the Duluth, Mesaba & Northern, and the mining companies owned by those interested in the road,

bring him the largest possible gain. The ulterior end sought is an increase of ownership, not industrial service ability."

[14] *Iron Age*, January 7, 1892, Vol. XLIX, p. 16; also *ibid.*, February 4, 1892, p. 198.

were to contract to ship ore in the vessels of the American Steel Barge Co.[15] for a certain number of years. The original bond issue of the road was also to be retired and a new issue of $2,000,000 to be put up as collateral for the loan.[16] Having quelled opposition to this plan by purchasing the interests of certain minority shareholders,[17] the newly formed syndicate proceeded to buy a number of valuable properties.[18] Early in 1893 rumors of a pending consolidation began to be rife. It was an especially propitious time to conduct negotiations aiming at the control or acquisition of mines. The panic of 1893 was on; ore-producers were in desperate straits; mines were shutting down; loans on any terms were desired. The situation emphasized the advantage possessed by a wealthy group of investors with judiciously distributed holdings and well-established banking connections. The men in control of the Duluth, Mesaba & Northern needed assistance, as did the rest of the mine-owners. They secured therefore, through the vice-president of the American Steel Barge Co., a loan of $432,575, for which they gave their notes secured by shares of stock of the Mountain Iron and the Missabe Iron companies, and the Duluth, Mesaba & Northern Railway.[19] It is highly probable, too, that direct loans were made them.[20] At any rate, it soon became evident that the transaction was but another step in the direction of an ultimate shifting of control.

In September, 1893, rumors of a pending consolidation became justified by the formation of the Lake Superior Consolidated Iron Mines Co., which took over the majority interests of some ten or eleven Messabe mines, the Duluth, Mesaba & Northern

[15] The American Steel Barge Co. was a Rockefeller property; cf. *Iron Age*, December 29, 1892, Vol. L, p. 1281.

[16] *Iron Age*, December 29, 1892, Vol. L, p. 1281; also *Iron Trade Review*, June 6, 1895, Vol. XXVIII.

[17] For mention of the controversy preceding a sale of minority interests, cf. *Iron Age*, February 2, 1893, Vol. LI, p. 249; *Railway Age*, February 10, 1893, Vol. XVIII, p. 123.

[18] *Iron Age*, March 16, 1893, Vol. LI, p. 622; *ibid.*, April 13, 1893, p. 858.

[19] Cf. facts disclosed in suit of Merritt, et al. v. American Steel Barge Co., *Federal Reporter*, Vol. LXXIX, p. 228.

[20] *New York Tribune*, June 15, 1895.

Railway (with its ore docks), and the Rockefeller interests on the Gogebic range and in the Spanish-American mines of Cuba.[21] The consolidation had been effected but a short time when it became evident that the original mine-owners and railway projectors had been dispossessed of control. A series of disputes and litigations arose, some of the owners claiming that the stock offered as collateral for loans had been unlawfully disposed of;[22] others asserting that their property had been taken over at unjustly low valuations, as the result of misrepresentation.[23]

[21] *Iron Age,* September 7, 1893, Vol. LII, p. 444.

[22] The Merritt brothers had contributed to the consolidation of 51 per cent. of the share capital of the Mountain Iron, the Biwabik, and the Missabe Mountain mines in addition to other properties (cf. *Iron Age,* July 21, 1893). In 1894 they brought suit against The American Steel Barge Co. to recover the value of 1,331.3 shares of stock in the recently formed Lake Superior Consolidated Iron Mines Co. The loan of $432,575 obtained from Wetmore (of which mention has been made) was secured by stocks of the Mountain Iron and Missabe Iron companies, and the Duluth, Mesaba & Northern Railway —which stocks were not to be repledged nor disposed of in any way. Wetmore, however, transferred all the railway stocks to Mr. Rockefeller—as a pledge for a debt, he said. The Merritts agreed to let this pass as a sale of stock for their benefit, although a short time before the same man had converted $90,000 worth of their bonds to his own use, upon which occasion they had "elected to waive the tort committed." It is no surprise, therefore, to learn that Wetmore later sold the promissory notes and the rest of the pledged stocks in his possession to the American Steel Barge Co., of which he was vice-president and managing officer. The stocks were subsequently converted into shares of the Lake Superior Consolidated Iron Mines Co. Upon maturity of the notes, the Barge Co. brought suit in a New York court and secured a decision authorizing the sale of the notes and collateral, the latter being bought in by the company for $25,000. The Merritts had previously sued the Barge Co. for the value of this collateral, but, the suit being brought in a Minnesota court, it was held that the decision of the New York court rendered first constituted a bar to action. Had the Merritts sued for the return of their stock, the Minnesota court, as having first jurisdiction, would have been entitled to retain it, since it would have been compelled to take possession of personal property. The decision of the United States Circuit Court was reaffirmed March 1, 1897, by the Circuit Court of Appeals. Cf. Suit Merritt et al. v. American Steel Barge Co., *Federal Reporter,* Vol. LXXV, p. 813, and Vol. LXXIX, p. 228.

[23] Another suit afterward compromised was brought by the Merritts on the ground that the Spanish American and Gogebic properties were taken into the consolidation at greatly inflated values. Cf. *Federal Reporter,* Vol. LXXVI, p. 909, Rockefeller v. Merritt. For conjectures as to the terms of settlement, cf. *Iron Trade Review,* February 18, 1897; *ibid.,* March 4, 1897, Vol. XXX; *New York Tribune,* February 13, 1897. For details concerning the McKinley proper-

Matters were not completely adjusted until sometime in 1897. Meanwhile the company once within the control of wealthy financiers rapidly acquired new mines both by lease and by purchase, while the Duluth, Mesaba & Northern soon had a practical monoply of the ore transportation of the range.

The most important development, however, of the period under discussion lay not in the acquisition by the Standard Oil group of valuable mining properties, but in the addition to its resources of substantial banking facilities. The alliance with the National City Bank had presumably been established by 1894, and although the bank was by no means in a position of such exceptional power as at present, its connections were nevertheless extensive.[24]

ties cf. *Iron Age,* June 22, 1893, Vol. LI, p. 387. Regarding controversies, cf. *Iron Age,* May 30, 1895, Vol. LV, p. 1136; *Iron Trade Review,* June 6, 1895; *ibid.,* June 13, 1895. Concerning "terms of settlement," cf. *ibid.,* August 15, 1895, Vol. XXVIII.

[24] It had a large representation in the United States Trust Co. and in the Farmers' Loan and Trust Co. Its president, James Stillman, was a director of the New York Security and Trust Co., and two of its directors were also on the board of the Bank of the State of New York. Moreover, William Rockefeller was director both of the Hanover National Bank and of the Leather Manufacturers' National Bank. Other important financiers interested in the bank were connected with outside ventures, as for instance the Consolidated Gas Co., of which Percy R. Pyne (president of the National City 1882–91) and Samuel Sloan (vice-president of the National City) had been directors since its formation in 1884. That the National City interests in this company in 1894 were quite heavy is evidenced by the fact, that besides the two men just mentioned, Roswell G. Rolston, Moses Taylor Pyne, and James Stillman were on its directorate.

The National City contingent also figured prominently in railroads. Stillman had long been interested in western roads. He was director of the Chicago, Milwaukee & St. Paul from 1879 to 1889, and he had held a place on the directorates of several smaller railroads. In 1893 he became director of the Delaware, Lachawanna & Western, with which William Rockefeller had been connected since 1890, and of which Samuel Sloan was president at the time (1893). Moses Taylor (president of the National City from 1855 until his death in 1882) had been identified with the road during his lifetime. He had also been interested in the Western Union Telegraph Co.; and the presence of Samuel Sloan and Percy R. Pyne on the directorate of the latter company in 1894 would indicate that the interest of the National City thus acquired had not been relinquished.

For facts concerning Moses Taylor, cf. *Rhodes' Journal of Banking,* May 1882; *Bankers Magazine,* May, 1882; for the accession of Stillman to the presidency of the National City, see *Bankers Magazine,* December, 1891; cf. also lists of directors in *Poor's Manual of Railroads.*

Its affiliations resulted indeed in the annexation by the Standard Oil group, of financiers who later became more prominently identified with it than many men foremost in the field of petroleum-refining.

Sufficient evidence has now been adduced to make it apparent that by 1893 or 1894 Standard Oil had developed into an important investment power. Standard Oil men had gained entrance into rich ore properties, such as the Minnesota Iron Co., and the Lake Superior Consolidated Iron Mines Co. They were in western railroads, such as the Northern Pacific and the Missouri, Kansas & Texas. They had holdings in eastern roads (the New York, New Haven & Hartford, the Ohio River Railroad Co., and the Delaware, Lachawanna & Western). Some of the group were identified with the National Lead Co. (successor to the Lead Trust, 1891); others (probably) [25] with the American Cotton Oil Co. Standard Oil men had acquired interests in street-railway and electric-lighting properties, to wit, the North American Co.; [26] and finally they were allied (more correctly perhaps, identified) with the financial interests in control of the National City and its affiliated Institutions. In short, the term Standard Oil had by this time gained a wider significance than was attached to it in the early days of its formation. The trust was no longer the cohesive force that kept the group together. In fact, it was only one of many interests that the men composing it had in common—some of them no doubt being financiers who had never had the slightest direct connection with the Standard Oil Trust. [27]

[25] Cf. note 8.

[26] The North American Co. was originally intended to take over the assets of the Oregon and Transcontinental Co. It was later empowered to acquire stock of street railway and lighting properties. Charles L. Colby, the first vice-president of the company, had been frequently associated with Mr. Rockefeller; Colgate Hoyt, a member of the board of directors, represented the Rockefeller interests in the Northern Pacific; E. D. Bartlett was also a director. *Iron Age,* April 13, 1893, Vol. LI, p. 858; cf. also *Commercial and Financial Chronicle,* November 15, 1890, Vol. LI, p. 680; *ibid.,* June 3, 1893, Vol. LVI, p. 931.

[27] It should be borne in mind that the personnel of all the important financial groups of today is in the nature of the case subject to frequent changes, many of the men formerly active within their circle gradually surrender-

But the fact that the group had secured recognition as a force in the investment world at large did not mean that its evolution was complete. It was merely in a position to enter upon a new developmental era furnishing some striking parallelisms with the early period when Standard Oil was struggling for pre-eminence in the petroleum-refining industry. But the competitors in this more comprehensive struggle were not to be refiners of petroleum, but groups of financiers representing important and highly diversified industrial and financial interests. Competition among these groups was quite a different matter from competition within the limits of a single industry, covering as it did so wide an investment field. Obviously, when such opposing forces contended one against another, the results were certain to prove much more far-reaching than if the several group holdings had been confined to but one line of investment.

Here again it is possible to trace the growth of a community of interests among these competitive groups, and to adduce certain facts which seem to indicate that one particular group—namely, the Standard Oil—may sometime come to dominate the entire investment field, as the smaller unit long ago came to control the industry of petroleum-refining. First, however, it will be necessary to touch briefly upon certain facts relating to a number of the important groups of investors who were brought into relations with Standard Oil in the course of the next few years.

In 1893, a date which marks a turning-point in the financial history of the country, the Goulds and the Vanderbilts were still in the ascendency. The men in control of the Pennsylvania Railroad were also a force in the community, while Huntington in the Southern Pacific wielded a powerful one-man control. But all the group interests, extensive though they might be, were more or less jealously confined to a single investment field—railroads. The Vanderbilt power was grounded almost exclusively upon its control of the New York Central and subsidiary lines. The Gould investments likewise were practically limited to rail-

ing the conduct of affairs into the hands of younger, more efficient men, while death and various causes are responsible for the disappearance of others.

roads, especially western roads, such as the Missouri Pacific, the Wabash, the Texas & Pacific, the International & Great Northern, and the St. Louis, Iron Mountain & Southern.[28] Indeed, outside of the Western Union Telegraph Co.,[29] in which Jay Gould became interested in 1881, the Goulds may be said to have had no other important holdings. Harriman had not yet been spoken of in connection with Standard Oil, and the Moores were unknown save as organizers of the New York Biscuit and Diamond Match companies.[30] Morgan was still in a subordinate position as an ally of the Vanderbilts. In fact, the firm of Drexel, Morgan & Co., though well established and enjoying influential financial connections, had apparently been chiefly occupied up to that time with placing the investments of its rich clients. Nothing had been heard of the so-called Morgan railway systems, steamship lines, or steel trusts. But with the financial disturbances of 1893, which led to the bankruptcy of so many railroads, came the rise of the Morgan group as an independent investment power—a development almost spectacular in its suddenness. An account of the growth of the Morgan railroad interests may properly be given in some detail, in order that an idea may be had of the character and strength of one of the most formidable groups of investors that Standard Oil would have to encounter during the period of its later development as a financial aggregation representing many and highly diversified interests.

The first of the railroad reorganizations undertaken by the firm was that of the Richmond & West Point Terminal Railway and Warehouse Company. In this case the security-holders themselves made application to Drexel, Morgan & Co., who, after one refusal, at length agreed early in 1893 to take charge

[28] *Commercial and Financial Chronicle,* January 12, 1895, concerning the report of the appraiser appointed to fix the value of the Jay Gould estate at the time of his death, December, 1892.

[29] For Western Union Telegraph Co. cf. "Investors' Supplement" of the *Commercial and Financial Chronicle,* July, 1887.

[30] For accounts of illegitimate speculation in the stocks of these companies carried on by the Moores, cf. *Commercial and Financial Chronicle,* August 29, 1896, and October 10, 1896.

of the reorganization upon assurances of a strict compliance with their terms.[31] By the close of 1894 the new Southern Railway Co. had been established, to operate upon a more conservative financial basis than its bankrupt predecessor. The stock of the company was placed in the hands of a voting trust consisting of J. P. Morgan, George F. Baker (president of the First National Bank of New York), and Charles Lanier,[32] while Messrs. Spencer, Wright, and Coster, all of the firm of Drexel, Morgan & Co., were placed on the board of directors.[33] The reorganization resulted in the Morgan interest being left in control of a road that later developed into one of the great railway systems of the country.

In February, 1893, the Philadelphia & Reading—the most important of the anthracite coal roads—went into bankruptcy. It was reported that Morgan-Vanderbilt interests had secured control of the company, but this report was vigorously denied at the time. Morgan, however, eventually undertook to adjust the finances of the road,[34] and it was thought that he, as well as others associated with him, secured large amounts of the stock and preference bonds thrown on the market by holders unwilling to pay the 20 per cent. assessment announced under the reorganization plan.[35] The road was sold under foreclosure (September, 1896), together with the Philadelphia and Reading Coal and Iron Co., and was purchased by the reorganization committee for $20,500,000.[36] When the reorganization was completed, the stock of the New Reading Co. (which took over the securities of the older road and its subsidiary properties) was deposited with a voting trust consisting of J. P. Morgan, F. P. Olcott (president of the Central Trust Co.), and one

[31] *Bradstreet's*, April 22, 1893, Vol. XXI, p. 243; May 27, 1893, Vol. XXI, p. 329.

[32] *Commercial and Financial Chronicle*, November 10, 1894, Vol. LIX, p. 836.

[33] *Ibid.*, October 27, 1894, Vol. LIX, p. 739.

[34] *Bradstreet's*, July 13, 1895, Vol. XXIII, p. 437.

[35] *Ibid.*, December 21, 1895, Vol. XXIII, p. 805; cf. also *Poor's Manual of Railroads*, 1896, pp. 805, 806.

[36] *Commercial and Financial Chronicle*, September 26, 1896, Vol. LXIII, p. 560.

other selected by them. The first board of managers, moreover, contained three strong Morgan representatives.[37]

Similarly, the New York, Lake Erie & Western, which went into the hands of a receiver shortly after the Reading bankruptcy, came within Morgan's power,[38] as did the Hocking Valley, which defaulted in its interest payments in 1897.[39] Later in the same year Morgan's assistance was invoked again in behalf of the Lehigh Valley Railroad, as it was thought that, in view of the control he had come to exercise over certain coal roads, it would be to his interest to preserve the solvency of all of them.[40] However that may be, the banking house of J. P. Morgan & Co. agreed to adjust the finances of the road[41]—a task which was successfully performed; and by the beginning of January, 1901, Morgan men had come into undisputed control of this company.[42]

[37] C. H. Coster, F. L. Stetson, and George C. Thomas (cf. *Poor's Manual of Railroads,* 1896 and 1897). In 1901 Morgan secured control of the Central of New Jersey and turned it over to the Reading, upon payment, it is said, of a most adequate compensation. Cf. *Report of the Industrial Commission,* Vol. XIX, p. 461 (1902): "According to competent testimony before the Industrial Commission, the price paid to the banking house of J. P. Morgan & Co., which secured control of the shares before selling them to the Reading Co., was the highest in the history of the Central Railroad of New Jersey.

[38] J. P. Morgan, Louis Fitzgerald (president of the Mercantile Trust Co.), and Sir Charles Tennant held the stock of the Erie in a voting trust, while Charles Coster, E. B. Thomas, Samuel Spencer, and F. L. Stetson were among the directors. The syndicate in charge of the reorganization agreed to provide $10,000,000 for assessments on all stock not assenting to the plan proposed, and to take $15,000,000 new prior lien bonds.—*Bradstreet's,* August 31, 1895.

[39] The Hocking Valley defaulted in the interest payments on its consolidated 5's, of which Mr. Morgan was said to have been the largest individual holder, although he also owned a considerable amount of preferred stock. Cf. *Commercial and Financial Chronicle,* February 20, 1897, Vol. LXIV; February 27, 1897, Vol. LXIV.

[40] Indeed, it was said at the time that through the absolute power of the Morgan interests in the Reading and the representation which allied financial powers [Standard Oil and Vanderbilt representatives?] had obtained in the Delaware & Hudson and the Delaware, Lachawanna & Western, it was believed that fully 60 per cent. of the anthracite coal production of the country was in his hands. Cf. *Bradstreet's* July 17, 1897, Vol. XXV, p. 453.

[41] *Commercial and Financial Chronicle,* March 13, 1897, Vol. LXIV, p. 516.

[42] *Ibid.,* June 24, 1899, Vol. LXVIII, p. 1226; January 12, 1901, Vol. LXXII, p. 87.

Still another of the roads that went under during the period from 1893 to 1897 came under the Morgan influence. It was the Northern Pacific, which became insolvent in 1893, but because of complications, due to the appointment of numerous receivers with conflicting duties, was not reorganized until 1896, when the plan brought forward by J. P. Morgan & Co., with the co-operation of the Deutsche Bank of Berlin, was successfully executed.[43] As a result of his interest in the Northern Pacific, Morgan first came into relations with James J. Hill, president of the Great Northern, who was supposed to have bought largely of the Northern Pacific securities the year before.[44] The two roads, under the leadership of Morgan and Hill respectively, thus came into harmonious relationship some time before the Northern Securities Co. was formed.

ANNA YOUNGMAN

LOUISVILLE

[43] *Poor's Manual of Railroads,* 1896. The syndicate subscribed $45,000,000 for the purpose of carrying the plan through and of providing for working capital and improvements.

[44] *Commercial and Financial Chronicle,* May 18, 1895, Vol. LX, p. 874.

[*To be continued.*]